Creative Radar 2021

The Impact of COVID-19 on the UK's Creative Industries

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Executive summary

This report provides new evidence on the impact of the COVID-19 pandemic on businesses in the creative industries. Following on from the Creative Radar survey data, which collected responses from 976 firms in January-March 2020 just before the first lockdown, we interviewed 417 companies that consented to be re-contacted to understand how they had been impacted by the pandemic in April and May 2021. Our key findings are:

- Only 4 per cent of the 675 companies we were able to contact had definitely closed or appeared to be no longer trading. The companies in our sample appear to have survived the crisis by furloughing employees and reducing the number of freelancers they worked with.
- The impact of the pandemic was very uneven. The Music & performing arts, Film & TV and Publishing businesses in our sample were particularly affected, in line with recent DCMS estimates. But some businesses thrived, with 18 per cent of businesses hiring more employees during the pandemic. These thriving companies were found across all creative sub-sectors.
- At the firm level we see that far from becoming redundant, freelancers have become even more vital to businesses that had been making greater use of them prior to the pandemic. Freelancers were important for those businesses that introduced new products as a result of the pandemic.
- At the firm level we did not see substantial regional and national differences in the impact of pandemic. The impacts of the pandemic appeared to be relatively evenly spread across the UK.
- Businesses in the UK's creative clusters saw reduced turnover outside their immediate regions (from the rest of the UK and from overseas) but local and regional business appeared to keep them operating.
- The creative microclusters that are located outside of the major creative clusters, were more likely to have added new employees. In the past year they increased their sales to the rest of UK, rather than focusing only on local markets.
- Companies across the UK kept investing in their businesses through the pandemic, with 66 per cent of businesses increasing investments in R&D, design, marketing, training or IT. Companies in microclusters were more likely to have increased investment in R&D.
- More than 25 per cent of the companies in our sample changed or downsized office space during the pandemic. Companies in London were particularly likely to have downsized.
- The companies in our sample have substantial investment needs, with 78 per cent requiring further investment but 45 per cent of those not having the resources for those to invest. In particular, companies wanting to invest in R&D and design are more likely to export but also more likely to view access to finance as a barrier to growth.

1

Introduction

The COVID-19 pandemic has had a deeply disruptive impact on the UK economy. The introduction of the first lockdown in March 2020 resulted in millions of people being furloughed or else working from home, and many businesses were forced to either suspend or completely change their ways of working.[1] For the creative industries, the impact of the lockdown was stark, particularly for the many organisations in the sector that relied on events and experiences as part of their but that could no longer maintain their standard ways of operating through lockdown. Despite substantial public support from the national and devolved governments, including £1.59 billion specifically targeting performing arts, cultural and other sectors particularly affected by the crisis, the creative industries still face substantial uncertainty moving forward as the UK economy slowly begins to re-open. The extent of the damage caused by the pandemic remains unclear: DCMS estimates suggest that in 2020, employment in the creative industries increased by 4 per cent from October 2019 – October 2020, while GVA fell by 7 per cent in the same period.[2] And while some sub-sectors of the creative industries like music, performing and visual arts have been devastated, others like IT and software and advertising and marketing have seemingly thrived.[3]

This report aims to explore the impact of the COVID-19 pandemic on businesses in the creative industries. In particular, the report aims to address three issues: the different impacts of the COVID-19 pandemic in different parts of the creative industries, particularly those most and least badly affected; the role of investment in key areas such as R&D and marketing through the pandemic; and the role of geography, particularly as it relates to the levelling-up agenda and regional inequalities.

The approach taken in the report is distinct from previous studies on the impact of COVID-19 on the creative industries[4] in that it is based on longitudinal data. The Creative Radar survey[5] was conducted by the Creative Industries Policy and Evidence Centre between January-March 2020, with fieldwork ending on the first day of lockdown on 23rd March 2020. In this way, the survey data provided a portrait of creative business immediately before the start of the pandemic. With financial support from the Arts & Humanities Research Council we re-surveyed the companies just over one year on from the original survey. Surveying the same companies gives us more statistically robust insights as to which ones have succeeded, which have struggled, and the challenges that creative industries businesses have faced in the past year, with both COVID-19 and Brexit posing different challenges.

The survey was carried out between 12 April and 14 May 2021,[6] using as its sample frame 711 businesses from the original 976 firms. These 711 businesses had consented to be re-contacted for research purposes at the end of the previous interview. Companies were contacted by telephone and asked to participate in a follow-up telephone interview. Of the full sample we were able to contact 675 businesses, and received responses from 417 businesses, in other words a 62 per cent response rate, which compares favorably with the response rates in other longitudinal studies.[7] Companies were asked detailed questions about their business activities, staffing, barriers, investment in new areas, and other business changes due to COVID-19 and Brexit. Results described in this paper are statistically significant, drawing from econometric analysis using upon baseline controls, unless otherwise noted. Given the longitudinal nature of our data and the unique characteristics of our original methodology the results presented here reflect unweighted data. Full details of the methodology used are available in the Appendix. The survey instrument used for this survey is available on the PEC website.

2

The national picture: Uneven impacts of the COVID-19 pandemic on creative industries sub-sectors

The impact of COVID, as noted above, has in many cases been negative but this has not been the case for all businesses in the creative industries. In this section we explore which sub-sectors, and which companies, have suffered the most, and which have thrived in the past year.

Survival

In the early days of the pandemic there was significant concern that substantial parts of the creative industries, particularly cultural organisations, could completely collapse. Following unprecedented injections of public funding, has the feared collapse of businesses in creative sectors happened?

Identifying when companies have 'closed' can be more difficult than it sounds,[8] but to the best of our knowledge we do not find evidence of widespread business closures among the firms in our sample. In particular, of the 675 companies with which we could make contact, only nine had definitely closed or announced plans to close, and among companies that could not be contacted for interview[9] we estimate that a further 22 may have closed. Assuming all those potentially closed businesses were indeed no longer trading, this would imply a failure rate of just 4 per cent among our sample, which may seem surprising as this number would fall within what would be expected in a typical year. However, across the economy, company insolvencies for 2020 actually decreased 27 per cent from 2019 figures,[10] suggesting that government interventions have reduced the risk of businesses closing down for the time being. Moreover, the 4 per cent failure rate for our sample excludes businesses that paused trading yet still responded to our survey, or that are financially stressed and may be at high risk of failure over the course of the next year.[11] Among the companies that have definitely or potentially closed, there are no clear trends that we can identify in terms of their sub-sector, but as we would expect they appear to be smaller businesses in general.

Employment

Many businesses in the UK have taken advantage of the furlough scheme, and the businesses in our sample were no exception, with 67 per cent of businesses in our sample having placed employees on furlough during the pandemic.[12] Has this translated into fewer job losses?

We find that 60 per cent of companies in our sample did not change their employment at all between the first wave (between January-March 2020) and second wave (April-May 2021) of the survey; 23 per cent laid off employees and 18 per cent added new employees.[13] Consequently, the mean employment change in our sample is very close to zero. Yet where within this we do see a disproportionate amount of job losses borne by firms in a handful of sub-sectors[14] (Figures 2.1 and 2.2). Figure 2.1 shows that the average business in almost all creative sub-sectors neither gained nor lost employees in net terms, with big exceptions in Music and Performing arts, and Film & TV.[15] Indeed, of the total (gross) job losses reported by companies in our sample, 41 per cent were in the Music and performing arts sector, as shown in Table 2.1.

Figure 2.1: Percentage changes in employment by sub-sector, January/March 2020 to April/May 2021

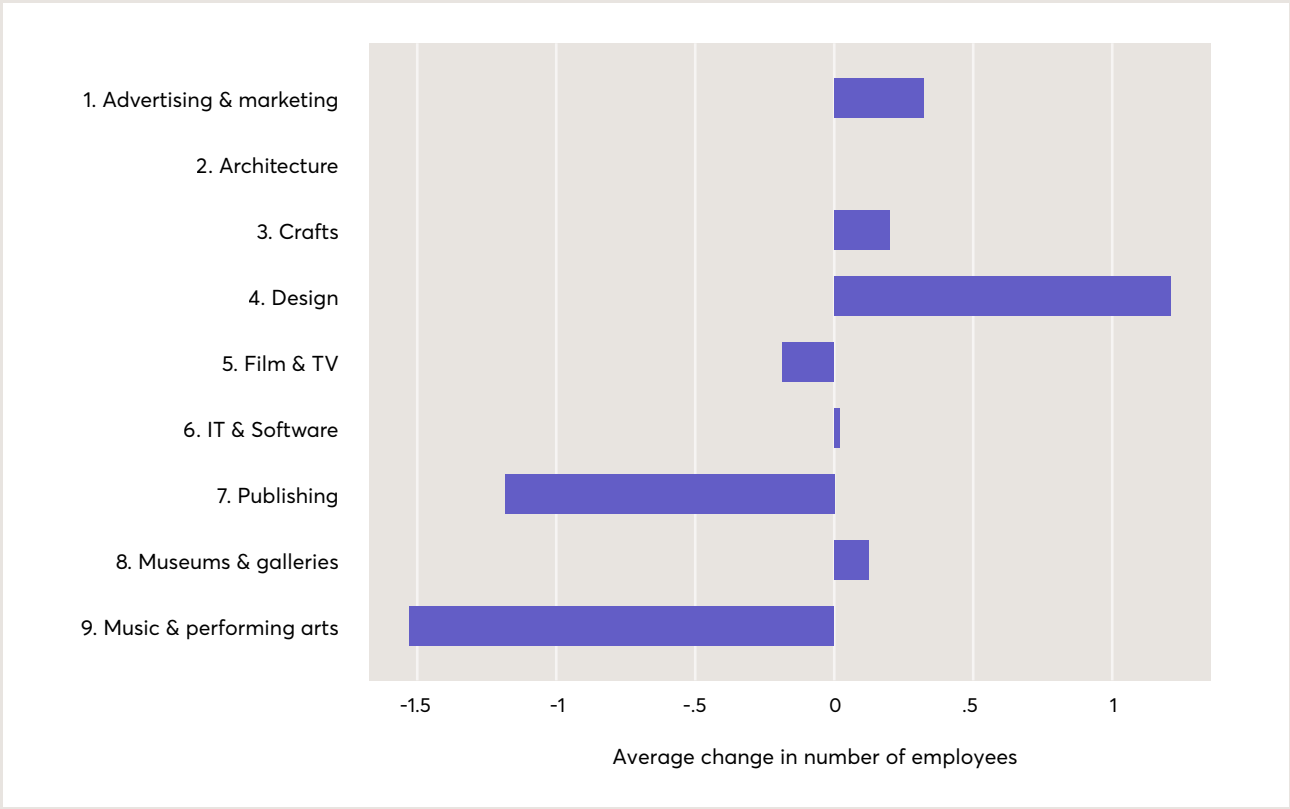
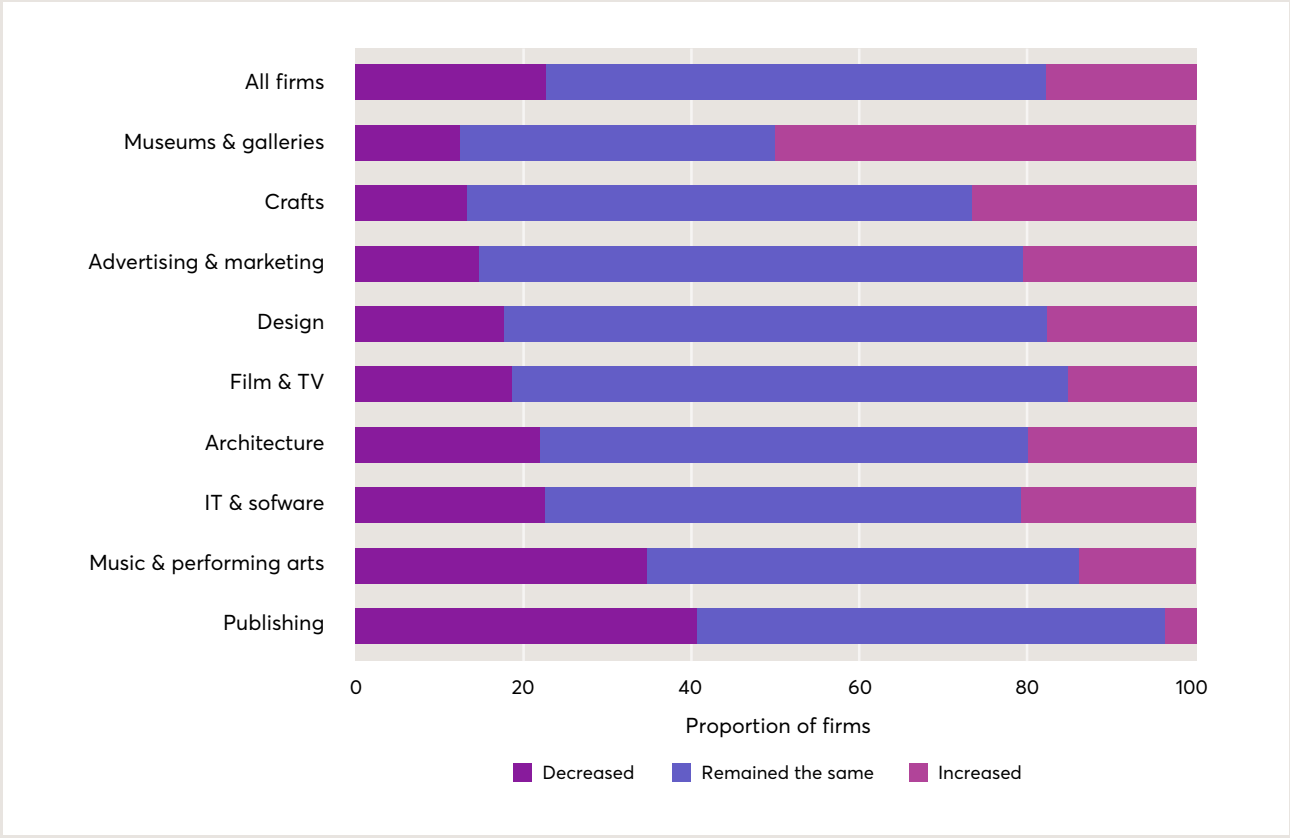


Figure 2.2: Change in employment by sub-sector



Note: Sample size corresponds to 415 firms.

Table 2.1 Share of total job losses of firms in the sample by sub-sector

Sector	% total job losses
Advertising & marketing	7%
Architecture	7%
Crafts	2%
Design	11%
Film & TV	9%
IT & software	9%
Publishing	12%
Museums & galleries	1%
Music & performing arts	41%

When we undertake econometric analysis (see the Appendix for details) we find that all things being equal, job losses were statistically most likely in businesses in the Music & performing arts and Publishing sub-sectors.[16] The companies that laid off employees were also more likely to have participated in the furlough scheme.[17]

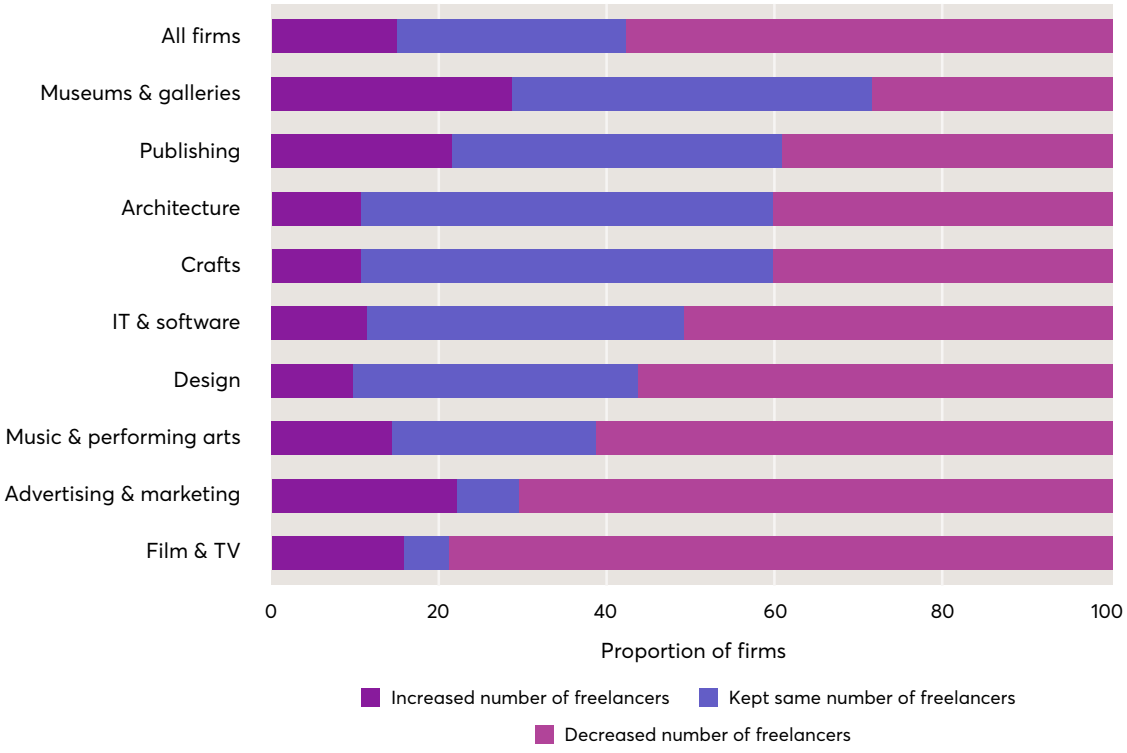
Interestingly though, throughout the crisis, a substantial number of businesses in our sample recruited new employees. We do not find evidence of the strong sub-sectoral variations seen in the case of companies that cut employment. However, our analysis shows that companies that increased employment were more likely to have high growth ambitions. They were also more likely to have rated their managerial capabilities as strong, and to have relied upon freelancers as sources of skills prior to the pandemic. Interestingly, we find no statistical evidence of employment growth being associated with companies that had 'pivoted' or substantially changed their activities and customers bases as a result of the pandemic. Our analysis suggests that these companies were choosing to build on their existing position, rather than leveraging new opportunities posed by the pandemic.

Freelancers

The self-employed are a vital part of the creative industries across all of the DCMS creative industries sub-sectors, accounting for 33 per cent of the workforce in 2019 prior to the pandemic.[18] The disproportionate impact of the crisis on freelancers in particular has been widely documented,[19] but the drivers of changes in *demand* for freelancers have to date not been examined. In our survey, 58 per cent of creative businesses decreased the number of freelancers they worked with, while 15 per cent increased the number of freelancers. The extent to which companies' use of freelancers changed, however, varied substantially; the median firm in our sample worked with one fewer freelancer post-COVID-19 than they did before, for example, but some companies shed hundreds of freelancers, while others added dozens.

The variations across sub-sector appear particularly striking (see Figure 2.3). Film & TV and Music & performing arts were both significantly more likely to have reduced the freelancers they were working with compared with pre-COVID-19. Advertising and marketing, in which 71 per cent of companies reduced the number of freelancers they worked with, generally made more modest reductions than those in Music & performing arts and Film &TV.

Figure 2.3: Percentage of companies increasing, maintaining, or decreasing freelancers



Which companies increased their use of freelancers over this period? We do not find obvious evidence that businesses turned to freelancers as a result of laying off employees (which might have indicated a shift to more 'gig economy' work structures from more traditional work). Firms that had decreased their employment were also more likely to have decreased their use of freelancers (Figure 2.4). And companies with a higher level of freelancer intensity (the ratio of freelancers to employees) prior to the lockdown in 2020 were more likely to increase their use of freelancers over the past year, particularly those businesses with a smaller number of employees. Our econometric analysis further suggests that exporters in particular were more likely to have increased their use of freelancers.

Figure 2.4: Companies' change in employment and change in freelancers

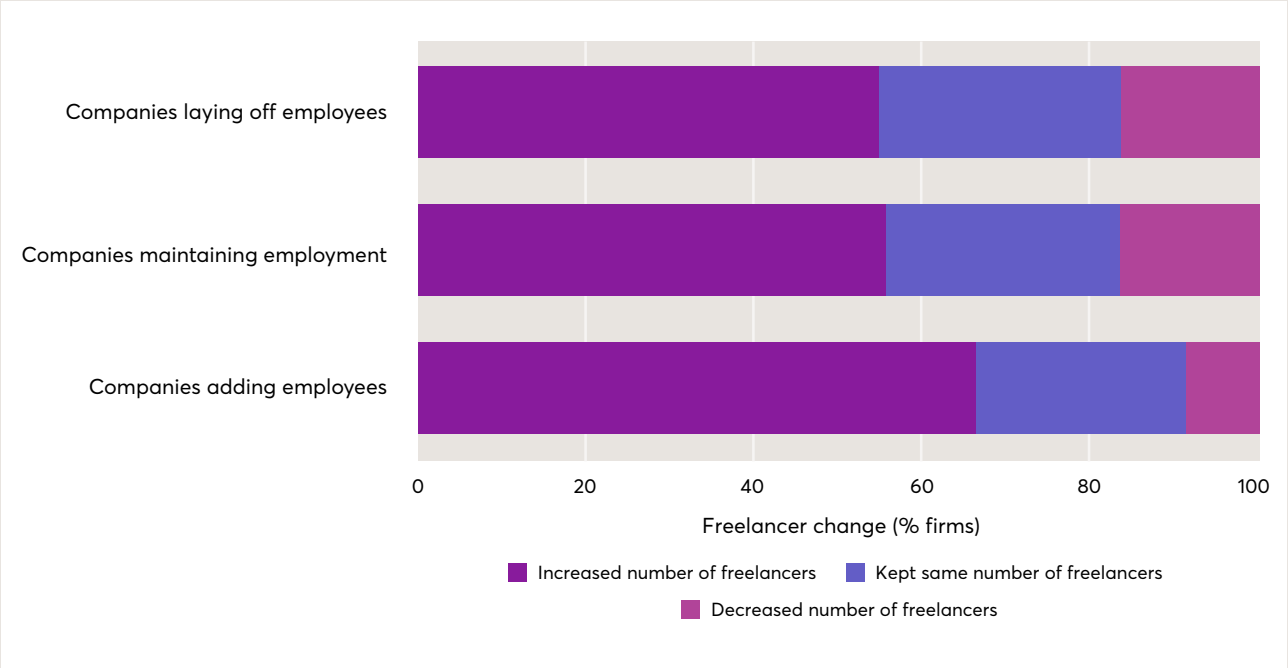


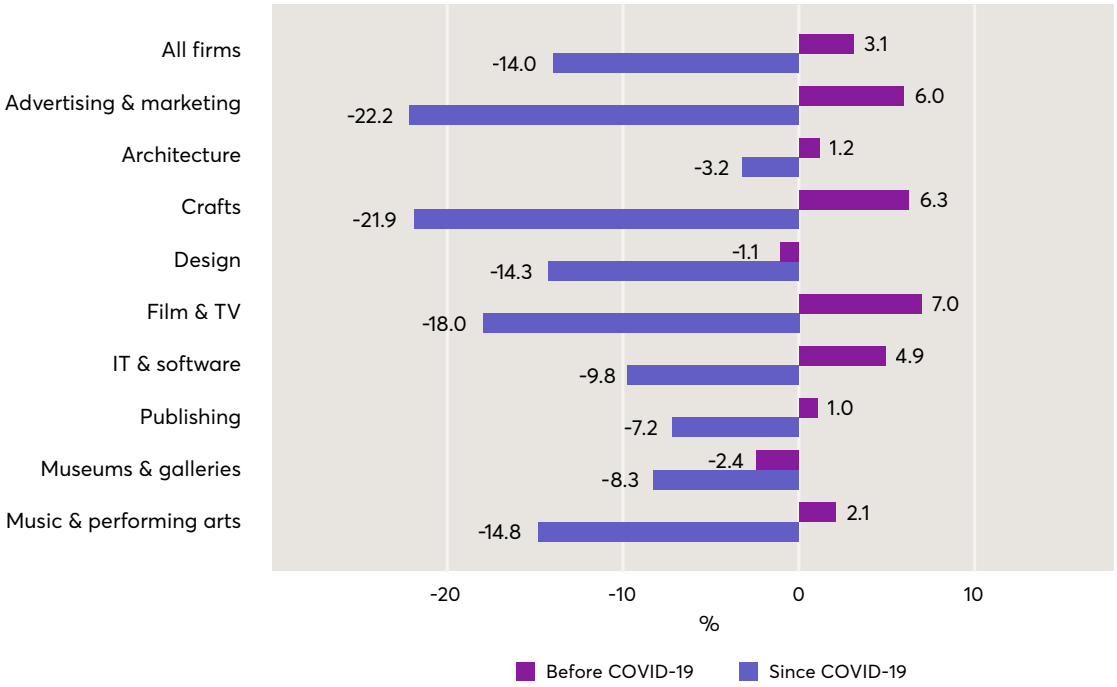
Figure shows the change in freelancer use by variation in employment due to COVID-19 pandemic.

Taking the findings for employees and freelancers together, the picture emerging at the national level from our survey data is one of a creative industries workforce with perhaps surprising resilience, but masking major problems in sub-sectors like Music and performing arts and Publishing. It appears that the freelance workforce has taken much of the brunt. But at the firm level we see that far from becoming redundant, freelancers have become even more vital to businesses that had been making greater use of them prior to the pandemic.

Changes in turnover and customers

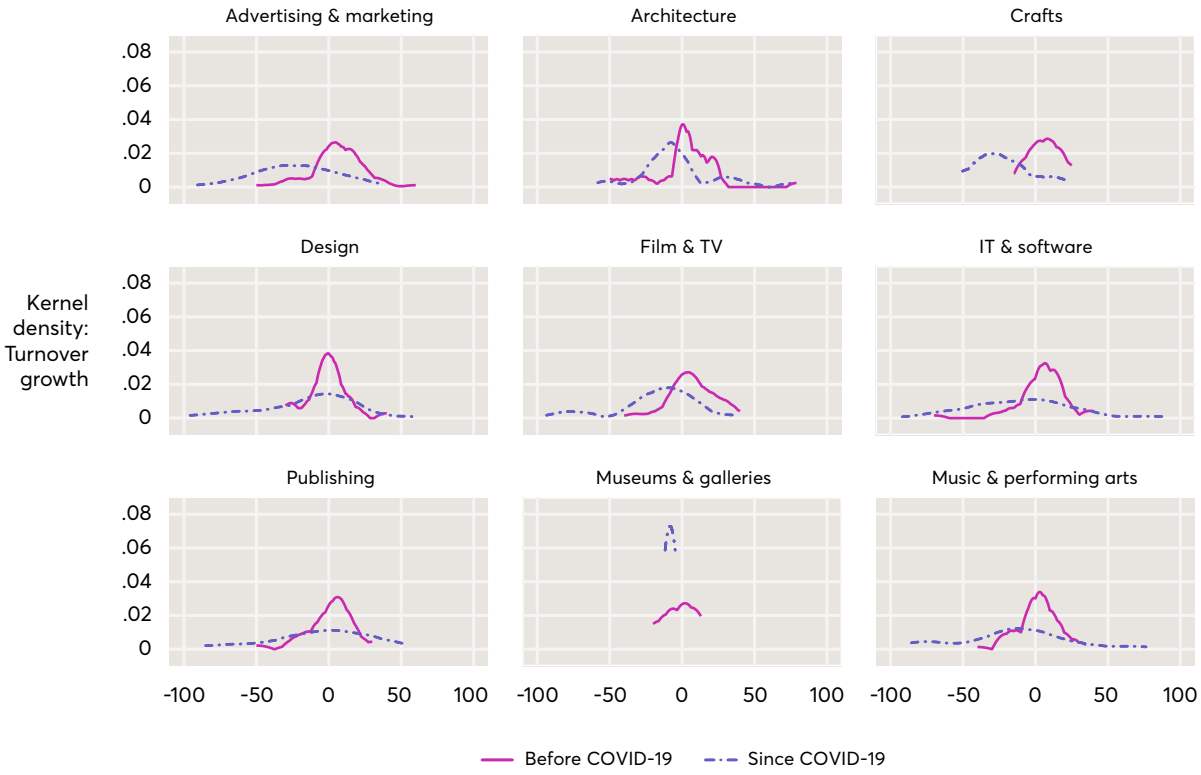
The businesses that we surveyed reported that, on average, the biggest barrier they had faced in the past year had been a collapse in demand for their products and services. Unsurprisingly the businesses we surveyed reported significant declines in turnover, with a median 10 per cent decline in turnover reported. As we have indicated above, these declines in turnover varied substantially by sector. Figure 2.5 shows the average turnover growth by sector, comparing average sector responses in the survey prior to the pandemic with the responses collected in spring 2021. All sectors show substantial declines in turnover.

Figure 2.5: Average turnover growth by sub-sector, January-March 2020 and April-May 2020



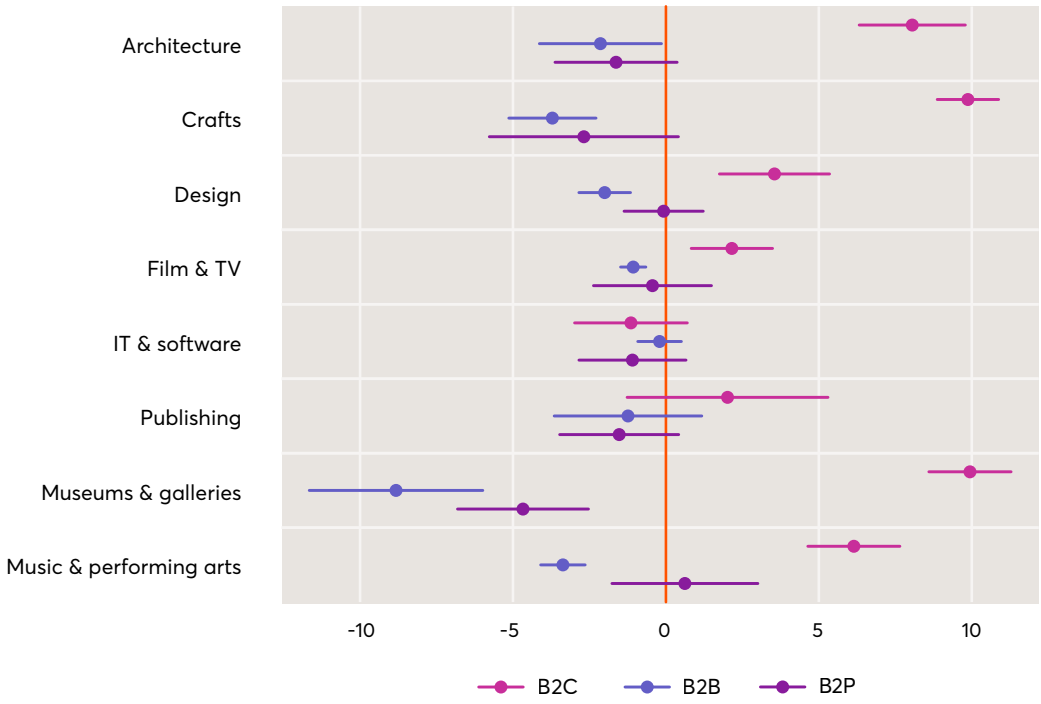
While the figure above shows average figures, there are substantial variations in turnover growth between the different creative industries sub-sectors. Figure 2.6 below shows the changes in distribution of turnover between sectors. Prior to the pandemic, the distributions appeared more 'spiky' as many businesses had grown a little bit in the past year. Since the pandemic the distribution has flattened, showing that the impact has been very different for companies even within the same sub-sector.

Figure 2.6: Turnover distribution by sector



The decline in turnover is largely driven by a collapse in demand for products and services. In particular, the most stark decline came through a sharp fall in B2B (business-to-business) sales. Businesses in most sub-sectors, apart from IT and software and Publishing, saw a decline in revenues from B2B sales and a corresponding increase in revenues from B2C sales. These are captured in Figure 2.7, which also shows the changes in B2P (business-to-public sector) sales.

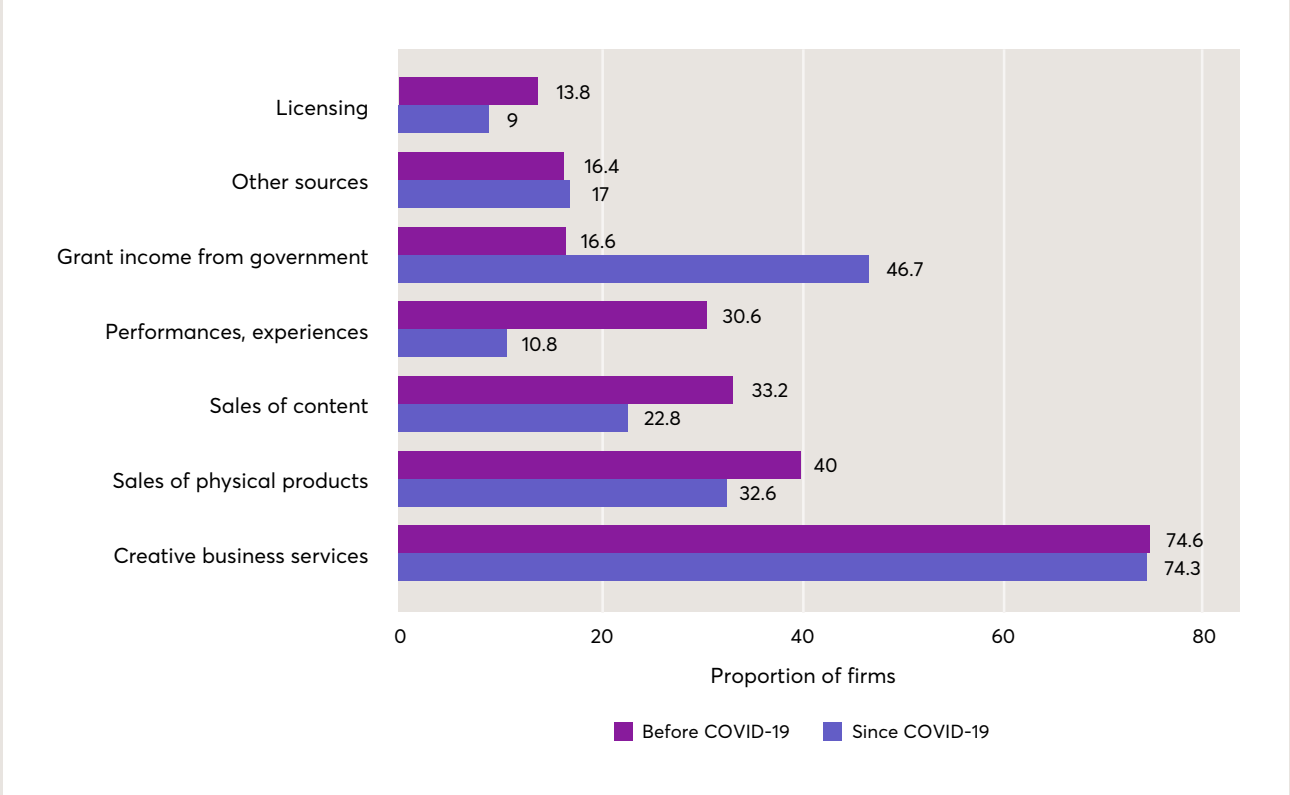
Figure 2.7: Changes in B2C, B2B and B2P revenues by sub-sector



Note: Figure shows point estimates and capped spikes show confidence intervals from regression results. Reference category: Advertising & marketing.

These changes in demand were also manifested in the different categories of revenue reported by our respondents, as summarised in Figure 2.8. Creative business services declined as a source of revenue across nearly all parts of the creative industries. In many sub-sectors (Publishing, Design, Museums and galleries and Music and performing arts), revenue from B2C sales increased as a share of revenue, but this appears to have been driven by the comparatively greater decrease in B2B sales rather than an absolute increase. Somewhat surprisingly, we find that while turnover from content sales and licensing increased for the IT and software and Publishing sub-sectors, it decreased for Design, Crafts, Architecture and Museums and galleries. This suggests that the generalised boost received from lockdown by online cultural consumption, documented in previous PEC research,[20] may not have translated into financial benefits for all creative businesses.

Figure 2.8: Sources of revenue: before and since COVID-19 pandemic



Business changes

There has been substantial anecdotal evidence on businesses 'pivoting' their offer to introduce new products, or find new customers, as a result of the COVID-19 pandemic. This is consistent with what we find for the creative industries, where according to our survey:[21]

- 39 per cent of firms launched new products or services.
- 42 per cent marketed their products or services to new types of customers or clients.
- 33 per cent adopted new digital ways of selling products and services.

A closer look at the data suggests that the 'pivoting' – at least for the businesses we surveyed – may not in fact have been quite as radical as these statistics suggest. Specifically, in the survey conducted prior to the lockdown, we asked respondents to summarise what their businesses did 'in a single sentence'. In the follow-up survey, we reminded businesses of their response and asked if this was still a correct characterisation. Only 6 per cent of respondents said they would fundamentally deviate from their business description, with the majority of these attributing that partly or entirely to the pandemic. Relatively few respondents had made major shifts in the very broad types of customers they worked with, e.g. shifting from primarily selling to businesses to primarily selling to consumers.

Which companies did make such changes? And were the companies in the figures cited above the same across all categories (e.g., launching new products and selling to new customers)? In general, we find a close association between whether firms had introduced new products, targeted new customers, or changed to selling products online or on digital platforms. Companies in the sub-sectors that were most badly affected by the crisis, as identified earlier – Music and performing arts, Film & TV, and Publishing – were also more likely to have introduced new products. The companies that were making these changes were in general smaller, and younger, than other firms in our sample. Along with the development of new products, these companies appeared more likely to increase the number of freelancers they used.

Public support

The creative industries, like many sectors in the UK, have benefited tremendously from public support throughout the pandemic. Overall, 85 per cent of the firms in our sample had received some form of public support. Indeed, IT and software was the only creative sub-sector that did not have more than 80 per cent of respondents receiving some support (Table 2.2).

Table 2.2: Companies receiving public support, by sub-sector

	Received any support	Furlough	Cultural Recovery Fund	Other public grant	Bounce back loan	Other public loan	Kickstart Job Scheme	Business rates relief	Other public COVID-19 support
Advertising & marketing	82%	56%	1%	27%	48%	5%	3%	35%	16%
Architecture	80%	64%	0%	24%	32%	8%	2%	41%	12%
Crafts	100%	87%	7%	67%	47%	7%	0%	92%	33%
Design	87%	81%	0%	37%	47%	4%	3%	45%	19%
Film & TV	92%	83%	2%	41%	55%	15%	4%	43%	22%
IT & software	63%	39%	0%	28%	25%	8%	4%	20%	6%
Publishing	86%	71%	0%	31%	39%	7%	4%	26%	29%
Museums & galleries	100%	88%	67%	50%	38%	14%	20%	71%	50%
Music & performing arts	94%	69%	29%	44%	37%	9%	6%	46%	22%
All firms	85%	67%	7%	35%	41%	8%	4%	40%	19%

Of the types of support, the most widely used was furlough, which was used by as many as two-thirds of the businesses we surveyed. The Cultural Recovery Fund, the largest of the funds specifically targeted at cultural organisations, was taken up by 7 per cent of respondents overall, but nearly 30 per cent of the beleaguered Music & performing arts sub-sector. Bounce Back Loans and Business Rates Relief were also very popular, with over 40 per cent of respondents having taken advantage of the facilities provided. Other schemes that were introduced in the wake of the pandemic, such as the Kickstart Jobs scheme, had a more limited take-up, with the exception of the Museums & galleries sector.

3

The impact on business investment

As we have highlighted above, the impacts of the pandemic on businesses in the creative industries has been highly variable, with some sub-sectors struggling while in others, some firms have thrived. What has been the impact on company investment? We asked firms about changes in their spending in five key areas over the past year: R&D, design, marketing, IT and software, and training.

As we show in Table 3.1 below, these changes have in most of these areas been broadly symmetrical, with similar numbers of companies increasing, as well as decreasing, spending on many of these areas (IT & software, where more companies increased than decreased investment, most likely due to the shift in home working, being the main exception).

Table 3.1: Changes in investment spending

		Increased spending	Decreased spending
R&D		**18%**	**18%**
	Due to COVID-19?	12%	17%
Design		**15%**	**19%**
	Due to COVID-19?	10%	16%
Marketing		**25%**	**26%**
	Due to COVID-19?	18%	23%
Training		**18%**	**20%**
	Due to COVID-19?	11%	18%
IT & software		**46%**	**10%**
	Due to COVID-19?	33%	9%

All figures, including those due to COVID-19, are presented as share of the total sample of firms. For example, 18 per cent of companies in the sample increased R&D spending, and 12 per cent (approximately 67 per cent of the number who increased spending) did so due to COVID-19.

The companies who decreased their investment spending were more likely to have decreased it across multiple areas (for instance decreasing spending on marketing and design). These companies were also more likely to be smaller, younger and, generally speaking, in sub-sectors such as Music & performing arts and Museums & galleries that we identified in Section 2. as having been more negatively impacted by the pandemic, driven by closures and inability to host visitors and organise events that then would be marketed.

Companies that increased their investment spending were more likely to have the highest growth ambitions over the past year, consistent with increased investment being a sign of self-confidence about its future. Companies that increased investment in one area were also more likely to have increased investment in other areas as well, particularly among marketing, design and R&D. These complementary investments were more likely in companies that were selling their products to new customers, rather than those that were creating entirely new products and services. Investments in training were more likely in larger companies.

Needs for investment

We also asked companies about their existing needs for investment in the different areas discussed above. Table 3.3 shows that a substantial percentage of companies said that they required more investment, Including more than half saying that they needed to invest more in marketing. Of those that identified a need for more investment, many went on to say that they did not have the resources to fund this. For example, 55 per cent of companies saying they needed to invest more in R&D did not have the appropriate resources to make that investment.

Table 3.2: Companies needing more investment and access to resources for investment (percentage of firms)

	Need for more investment	Do not have resources (% of those requiring investment)
R&D	32%	55%
Design	27%	42%
Marketing	55%	40%
IT & software	45%	37%
Training	47%	39%

It turns out that the companies that reported not having sufficient resources for their required investments had a particular profile. For example, companies requiring investment in R&D and design but currently lacking funds to do so generally had invested in these areas through the pandemic. They were also more likely to be exporters[22] and be freelancer-intensive. They were significantly more likely to report access to finance as being a barrier to their growth. Taken together, these results suggest that there is a substantial pool of innovative, exporting companies that innovated through the pandemic but are financially constrained and require further capital to invest in their innovation activities..

4

The COVID-19 pandemic, place and the 'levelling up' agenda: What is the impact on clusters?

Escape from the office?

Businesses working in the creative industries have traditionally benefited significantly from clustering and spatial proximity.[23] However, the COVID-19 pandemic has led many businesses and workers to re-evaluate the role of space and proximity as substantial parts of the workforce have been forced to work from home.[24] This leads to an important question about the future role of offices in sectors like the creative industries. Indeed, the move to home working is a considerable source of uncertainty for creative industries as we look toward the post-vaccine era of the pandemic.

The impact of home working has led to two key questions that will be vital as the economy continues to reopen. The first is what role offices will play in the future. Given the pandemic-enforced shift toward home working and resulting new experiences and routines for online work, many employers have been shifting their plans for return to the office to give workers greater flexibility to work from home. It remains unclear, however, what this means for offices and office space. Will companies downsize to smaller offices as more workers work from home, or will maintaining sufficient space for all employees to work remain important? More broadly, the second question is what largely online working has meant for the informal sharing of knowledge that takes place in clusters – *"something in the air"*, in the words of the economist Alfred Marshall. Have companies that were engaged in their community managed to remain engaged with local businesses?

To address this question we asked companies about the other businesses they had kept in touch with, and the level of interactions they had had with companies locally, nationally and internationally, during the pandemic. 38 per cent of businesses said they had started using online means of keeping in touch with local contacts whom they could not see in person following lockdown restrictions. Overall, a surprisingly large number of companies said they had maintained the same level of interactions with their contacts: 73 per cent of businesses said their interactions with contacts had remained constant or increased in the past year. This included both local contacts as well as contacts overseas.

We also asked companies if they had decided to change or downsize their office space as a result of the pandemic. 25 per cent of companies in our survey said they had decided to change or downsize offices. This, one-quarter of companies in our survey said they had decided to change or downsize offices, this probably understates the changes in our overall sample: 76 businesses from our original sample could not be contacted, and upon further investigation at least 39 of those appeared to still be operating but had either changed location or stopped answering their office telephone number while continuing to operate online. Companies in London were significantly more likely to report that they had moved to new locations.

Companies that had downsized were more likely to be those that were, prior to the crisis, freelancer-intensive, engaged in local clusters, and more likely to be introducing new products. They also appear to be those that were more likely to have downgraded their growth expectations in the 13 months between the surveys.

Clusters and microclusters in the pandemic

Creative clusters

Given the general findings above, what were the implications for clusters and microclusters in the pandemic? In this report we use the same definitions in our previous Creative Radar report, defining 'clusters' as the 47 creative clusters identified in prior Nesta research.[25] We use the same 709 'microclusters' that we identified in the Creative Radar report, but in this instance when we refer to microclusters, **we refer exclusively to those microclusters outside the 47 clusters unless otherwise noted**.

Our analysis suggests that the results for businesses in the UK's creative clusters are in line with the results for the creative industries as a whole. All things being equal, these businesses were neither better nor worse affected by the COVID-19 pandemic than other businesses in our sample in the previous 13 months. For example, changes in employment were also not significantly statistically different to the overall population of businesses in our sample.

What was the impact of the pandemic on companies in creative clusters? Our analysis suggests a narrowing of their markets and contacts for companies in clusters during the pandemic. They were more likely to have seen reductions of revenues from elsewhere in the UK (e.g. outside their local area and region), as well as a decline in revenue from exports. We also found that they were also more likely to have reduced their engagement with other people and businesses outside their local areas. Given the findings of our previous report about the importance of local markets for creative clusters, it seems that these markets have been important in sustaining creative clusters during the pandemic. We find evidence that companies in larger creative clusters were more likely to have decreased spending on R&D as a result of the pandemic, and were not significantly more likely to invest in any of the other areas. Given the findings above, this suggests perhaps a greater level of caution being shown by companies within these clusters in light of stark declines for demand in products and services.[26]

Table 4.1: Increase in investment spendings due to COVID-19 pandemic (percentage of firms)

Increased	Large Clusters	Microclusters	All firms
R&D investment	68%	74%	66%
Design	58%	70%	63%
Marketing	65%	72%	70%
IT & software	75%	71%	72%
Training	62%	71%	59%

Microclusters

Our analysis suggests that for microclusters the impact of the COVID-19 pandemic was more favourable. Companies in creative microclusters were, all things being equal, more likely to have increased their employment in the 13 months between the waves of our survey than the other companies in our sample. The levels of growth were low, but were positive in a time when many businesses elsewhere in the UK reduced staff and saw turnover fall.

How did this growth come about? Our findings for the creative clusters discussed above suggested that companies in these clusters saw a downturn driven by declines in sales outside companies' regions. By contrast, we find that microclusters appeared to have increased their UK-wide turnover. Given that larger creative clusters might have sufficient scale of demand to support businesses during the crisis, companies in smaller areas may not have had similar options, and appear to have expanded their nationwide reach. We find that companies in microclusters are more likely to report facing strong competition in their markets, which suggest that smaller market size and high competition have forced them to expand their turnover across the UK.

Companies in microclusters also had a greater share of turnover derived from public support in the past year compared with the population at large, but there was no evidence that they were more likely to have applied for, or to have been successful in securing, public support.

Consistent with the finding above that some businesses in microclusters were more likely to have grown their workforce in the past year, we also find evidence that these companies were significantly more likely to have increased their R&D spending directly in response to the pandemic (see Table 4.1). This increase was particularly driven by companies in the Advertising & marketing, IT & software and Film & TV sectors. Moreover, we find that companies in microclusters were more likely to report having a need for additional investment in R&D as well.

'Levelling up': The pandemic in London vs the North of England, and the nations

Previous PEC research has identified that the financial crisis in the late 2000s served to concentrate the creative industries within London, and that these strong regional disparities still exist.[27] Is there evidence that the COVID-19 pandemic will impact the UK's existing regional inequalities? From our analysis of the businesses we surveyed we find relatively little evidence of consistent and robust regional differences in response to the pandemic. Indeed, much of the impact seems to be better explained by companies' size, and sub-sector, rather than region.

We do find meaningful regional differences in our analysis of investment needs. As indicated above, companies in microclusters were more likely to have increased their investment in R&D, but these effects appear to have been located largely in Scotland, the North West and South West.[28] At a broader regional level, we find that companies outside of London were particularly likely to have invested in marketing and training. Companies in Scotland, Wales and Northern Ireland appear to have invested heavily through the pandemic, with increases in R&D, design, marketing and training. Moreover, companies outside of London were also more likely to report needs for more investment. In particular, companies in the North of England were significantly more likely to identify a need for further investment across R&D, design, marketing and IT.

5

Conclusions and summary

This report has used survey data of companies collected before and after the COVID-19 pandemic to understand the impact of COVID-19 on the creative industries. We interviewed 417 businesses that had previously been interviewed before the first UK lockdown. From our analysis we draw a number of key conclusions:

Creative industries businesses largely weathered the storm, but face real challenges over the next year. No more than 4 per cent of the businesses in our sample ceased trading over the past year. This is good news, but it does also indicate that some businesses may be at risk of closure over the next year as public support schemes such as furlough are phased out.

The impacts of COVID-19 were uneven: While some sectors, particularly Music and performing arts, Film & TV and Publishing, were very badly affected by the pandemic, other sectors came off comparatively lighter. In addition to the challenges of businesses in Music and performing arts, respondents highlighted a major decline in turnover from B2B sales. But this was not the only impact. Indeed, 18 per cent of businesses in our sample increased employment in the past year. This suggests that as the government looks toward recovery, the policy support required for the sector will vary between helping those sectors that have been most disrupted and supporting those that have grown substantially to achieve their (often newfound) growth objectives. This will therefore require a nuanced policy mix.

Freelancers bore the brunt of the pain... 78 per cent of businesses in our sample retained or grew their employees in the past year, but 58 per cent reduced the number of freelancers they worked with. This decline in demand for freelancers' services has been documented elsewhere, but highlights the stark challenges these workers have faced.

...but freelanders remained vital to creative industries businesses Freelancers continue to play a major role in the creative industries, and were vital in allowing businesses to offer new products and services in response to the pandemic. Supporting companies with freelancer-intensive business models needs to be a priority.

Companies changed their operations and continued investing through the pandemic: Many companies developed new products or services or targeted new markets in response to the pandemic. Likewise, a substantial number of companies in our sample made investments in R&D, design, marketing, IT or training through the pandemic. These investments are generally associated with growth ambitions. Supporting these companies to achieve their aims will be an important policy goal so that these ambitions can be realised.

Innovative companies are resource constrained. Of the companies that said they needed to invest more in R&D, more than half did not have the resources to do so. We find a group of companies wishing to invest in R&D and design but having problems accessing the finance to do so. These companies are more likely to be exporters, so providing support to them could be an important part of the post-Brexit business support agenda.

The impact of COVID-19 was geographically distributed: While sector was very important in determining the impact of the pandemic on creative industries businesses, we found location to be relatively less important. There were relatively few major, statistically significant trends between the regions of the UK. Given previous PEC research showing that the previous financial crisis increased concentration of creative industries in London, at the expense of other regions, it should be a major priority for the government to ensure that the post-COVID recovery means that this region-agnostic crisis doesn't result in further regional inequality.

Creative clusters turned local: We find that companies in creative clusters were more likely to see declines in turnoved derived from outside their region, whether within the UK or overseas. These companies appear to have been able to use local and regional demand to keep operating.

Microclusters appear to have thrived. The UK's creative microclusters appear to have done relatively well from the crisis. They were more likely to have hired new employees, and were more likely to generate more of their turnover from selling across the UK. We suggest that given their smaller local markets these companies appear to have broadened their sales in response to the pandemic. We also find that companies in microclusters were more likely to have increased their investment in R&D in the past year, and also remain more likely to report needs for further investment in their R&D activities.

Appendix

Appendix 1: Data

The data presented here is the result of telephone surveys carried out in April – May 2021. The survey was built upon our Creative Radar survey that was carried out in 2020 before first lockdown. The initial sample comprised 711 creative businesses who agreed to participate in a follow up survey. All 711 records were called, of those 35 had incorrect details or were out of scope, so 675 records were used. Out of the 675, 75 were not retrieved (possible business closures). 417 interviews were carried out, achieving a response rate of 62 per cent. The refusal rate was 8 per cent (52 records).

Out of the 417 companies contacted, 400 were currently active and 17 had temporarily stopped trading due to COVID-19 but were planning to re-open later.

Table A.1 provides summary statistics for our sample, including a comparison of the composition of this wave of the survey compared to the previous wave collected prior to the pandemic. The composition of the surveys are strikingly similar, suggesting relative comparability between the findings.

Table A1:

	Wave 1 n=976	Wave 2 n=417
Sub-sector	**Percent**	**Percent**
1. Advertising & marketing	16.5	16.3
2. Architecture	13.5	12.0
3. Crafts	2.8	3.6
4. Design	14.8	14.9
5. Film & TV	14.2	14.2
6. IT & software	14.5	13.0
7. Publishing	6.4	6.7
8. Museums & galleries	2.4	1.9
9. Music & performing arts	15.1	17.3

Table A1: Continued

	Wave 1 n=976	Wave 2 n=417
Region	**Percent**	**Percent**
East Midlands	8.7	8.6
East of England	8.6	8.6
London	15.7	13.9
North East	4.4	4.8
North West	7.6	7.2
Northern Ireland	2.0	1.9
Scotland	7.8	6.7
South East	12.5	13.0
South West	9.4	9.6
Wales	6.2	7.4
West Midlands	7.9	8.9
Yorkshire and The Humber	9.3	9.4
Other firm-level characteristics	**Percent**	**Percent**
Microcluster	36.6	35.4
Large cluster	54.1	50.6
Young	8.6	7.9
High growth firm	15.8	17.6
Size (average number of employees)	8.4	9.5
Freelance intensity (freelance to employment ratio)	0.23	0.2

Appendix 2: regression analysis

Our data covers 2 time periods (T=2), we compared in most of the cases values of the dependent variable (outcome) in the second period (during COVID-19 Pandemic) to values in the first period (Before COVID-19). By focusing on changes in the dependent variable, the before and after comparison or differences holds constant the unobserved factors that differ from firm to firm, but that are time invariant. For some binary outcomes we estimated a series of OLS and probit models. For all models we computed marginal effects (at means value).

The set of explanatory variables included in the models were as follow:

- **Microcluster**: A dummy that is coded 1 if the firm operates within a previously identified microcluster and 0 otherwise
- **Large cluster**: A dummy that is coded 1 if the firm operates within a previously identified NESTA CLUSTER and 0 otherwise
- **Young**: Whether the organisation was recently established, defined as established in the last five years (coded 1) or longer established (coded 0).
- **Size**: The size of the organisation, in terms of the number of people employed, including the owners, employees and others. We classified firms into five mutually exclusive size-bands: 1 person; 2-5 people; 6-10 people; 10-30; and over 30.
- **Furlough**: A dummy that is coded 1 if the firm furloughed any of their employees and 0 otherwise.
- **High growth**: A dummy that is coded 1 if the firm's turnover variation is larger than 20 per cent and 0 otherwise.
- **Freelance intensity**: A continuous variable defined as the ratio of freelancers to total employment.
- **Sector**: The sub-sector of activity according to the nine official DCMS sectors. One sector is used as the reference sector against which the others are compared; we use 'Advertising and Marketing' as the reference sector
- **Region**: We also include the region (NUTS 1) in which the company is located. Due to the distribution of firms across regions and partly because the Government's 'levelling-up' agenda – we classified the organisations' locations to one of five regions: 1) London; 2) the South East; 3) the Midland plus South West and East of England; 4) the North of England (North West, Yorkshire and the Humber, and North East); and 5) to Scotland, Wales and Northern Ireland. London is used as the reference region against which the others are compared.

All controls were used at baseline where possible to avoid simultaneity issues. Standard errors were clustered at region and sub-sector level. Firms with extreme values were eliminated from the analysis to minimize sensitivity to outliers.[29]

Endnotes

1. See for instance the Resolution Foundation's 'On Firm Ground' report https://www.resolutionfoundation.org/publications/on-firm-ground/. For evidence on the impact of SMEs see the Enterprise Research Centre's research, such as https://www.enterpriseresearch.ac.uk/publications/the-impact-of-the-covid-19-pandemic-on-uk-smes-and-their-response/
2. These figures have been computed by the authors using DCMS sector Economic Estimates last updated on June 3, 2021: https://www.gov.uk/government/statistics/dcms-sector-economic-estimates-employment-oct-2019-sep-2020
3. See for instance https://www.creativeindustriesfederation.com/publications/report-projected-economic-impact-covid-19-uk-creative-industries; https://www.pec.ac.uk/blog/how-differently-has-the-creative-workforce-fared-under-covid-19/ and research from the Centre for Cultural Value on the impact on freelancers https://www.culturalvalue.org.uk/new-research-reveals-scale-of-crisis-affecting-creative-freelancers/
4. See research by the Creative Industries Federation, https://www.creativeindustriesfederation.com/publications/report-projected-economic-impact-covid-19-uk-creative-industries, or the work of the PEC and Centre for Cultural Value https://pec.ac.uk/news/covid-19-impacts-on-the-cultural-industries-and-the-implications-for-policy and 'From catastrophe to hybridity to recovery' by Tarek Virani and Jenn Blackwood, which highlights the impact of COVID-19 on creative and cultural businesses in the South West https://creativeeconomies.co.uk/publications/covid19-report
5. Full details of the methodology behind the Creative Radar report are available in the appendix of that report: https://www.pec.ac.uk/research-reports/creative-radar
6. At the time of the survey's launch, the government's 'stay at home' rules for households in England had been lifted two weeks previously and on the day of the survey's launch, non-essential retail and hospitality venues had been allowed to reopen, with the latter only allowed to serve customers outside. A summary of restrictions at the time is here: https://www.gov.uk/government/publications/covid-19-response-spring-2021/covid-19-response-spring-2021-summary#step-2---not-before-12-april
7. For instance, the second wave of the UK Longitudinal Small Business Survey in 2016 had a 56% response rate. Given that our questionnaire is non-compulsory and the vast majority of respondents will have been following government guidance to work from home and will have conducted their interviews from home, a 62% response rate is impressive.
8. It can be very difficult to identify exactly if, and when, a business has closed. A company may cease trading but not have closed its company accounts, or may be wound down, or be in administration, but not all of these activities are immediately observable in official records such as Companies House. In our case there are added challenges of businesses that may have temporarily ceased trading but have subsequently opened (or planned to reopen) but are not contactable.
9. We manually checked companies that could not be contacted. Of the 75 businesses who could not be contacted, the vast majority had either moved offices or were not answering their phones whilst operating virtually. We sought to verify activity on websites or social media to indicate that a company was likely still trading.
10. Source: 2020 Company Insolvency Statistics England & Wales availble https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/956644/Company_Insolvency_Infographic_annual_2020.pdf
11. One relevant argument made in the Resolution Foundation report cited in Footnote 1 is that the public support mechanisms introduced in response to COVID-19 effectively delayed the closure of businesses that might have failed anyway had the pandemic not taken place. The low failure rate of our sample suggests that these concerns may be accurate, in which case it would seem an unfortunate possibility that when we resurvey these companies again in 2022 many will have closed.
12. It is useful to contextualise these results. According to the ONS Business Impact of Coronavirus Survey (BICS), in May 2020, 78% of all employers (across all sectors) at that time had furloughed staff. Our finding of 67% take-up is higher than the DCMS Business Impact of Coronavirus Survey (BICS) Round 2 survey, which estimated 34% of companies in their sample; however the sample used in that study reflected sectors particularly affected (e.g. music, events, film and TV) and excluded sectors such as architecture and design. Likewise the DCMS Coronavirus Business Impact Survey (distinct from BICS) reported a headline figure of 24% take up of the furlough scheme, but close examination of the data shows that more than half of creative industries respondents said they were not eligible for the scheme. Once those companies are removed the rate of take-up for furlough comes to 54%. Given that we do not have sub-sector breakdowns for this sample we can't compare it to the composition of our sample. However we ran a completely separate survey of 297 creative industries businesses in Greater Brighton and Coast 2 Capital LEP region in December 2020, with a similar methodology to this survey, and found 61% of respondents reported having used the furlough scheme. On this basis we have confidence in our 64% figure as being reasonable. While we did not ask what share of the workforce respondents furloughed, Virani and Blackwood, cited above, found nearly half of respondents in their study who participated in the furlough scheme furloughed between 76 and 100% of their staff.
13. Respondents were given the employment figure they had reported in the previous survey and asked if this was still correct. If it had changed they were asked how many people they were employing at the time of the interview. Due to rounding, figures do not add up to 100%.

14. For sub-sectors we use the nine main creative industry subsectors used in the DCMS definition. Our sample frame, as used in the original Creative Radar report, is based on companies whose activities were congruent with the definitions used in the DCMS definition but might not be classified in DCMS sectors. 19% of our sample is outside the DCMS SIC codes, compared to 20% of the original survey. As in our previous report, our analysis finds no meaningful difference between companies inside and outside the DCMS SIC codes. We also note that for some sectors, particularly Museums and galleries, Crafts, and to an extent Publishing, our sample size is relatively small. For this reason we recommend interpreting specific results for these sectors with caution
15. See research by the PEC, including https://pec.ac.uk/blog/how-differently-has-the-creative-workforce-fared-under-covid-19 and https://www.pec.ac.uk/blog/how-covid-19-is-impacting-the-cultural-sector-with-the-loss-of-55-000-jobs-in-the-arts
16. This is in line with recent analysis from the PEC: https://www.pec.ac.uk/blog/how-differently-has-the-creative-workforce-fared-under-covid-19
17. This is consistent with the findings of the DCMS Coronavirus Business Response Survey, which found in September 2020 that one-third of companies accessing the furlough scheme were anticipating making furloughed workers redundant when the scheme ended, and a further 27% were planning on reducing hours for workers. This is also consistent with the PEC/CCV study using the Labour Force Survey https://www.pec.ac.uk/blog/how-covid-19-is-impacting-the-cultural-sector-with-the-loss-of-55-000-jobs-in-the-arts
18. https://www.gov.uk/government/statistics/dcms-sectors-economic-estimates-2019-employment
19. See for instance the recent work published by the PEC as part of its One Size Can't Fit All campaign https://pec.ac.uk/blog/one-size-cant-fit-all, as well as the study of creative businesses and organisations in the South West by Virani and Blackwood referenced above.
20. https://www.pec.ac.uk/news/cultural-consumption-in-the-uk-during-the-pandemic-a-survey-project-with-the-intellectual-property-office-and-audiencenet
21. We note that these figures are very similar to a separate forthcoming study of the Greater Brighton and Coast 2 Capital LEP regions that used a similar questionnaire to the questionnaires we used here. The figures found for a completely separate sample were very close to the ones listed here.
22. This is in line with recent PEC research on R&D in the creative industries: https://www.pec.ac.uk/discussion-papers/r-d-design-and-innovation-examining-the-links-in-the-creative-industries
23. For an overview of research on the benefits of spatial proximity for creative industries businesses see https://www.pec.ac.uk/discussion-papers/evolution-and-trends-of-creative-cluster-research
24. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/homeworkinghoursrewardsandopportunitiesintheuk2011to2020/2021-04-19#characteristics-and-location-of-homeworkers
25. https://www.nesta.org.uk/report/the-geography-of-creativity-in-the-uk/
26. To our knowledge, this finding has not been echoed in previous research on COVID-19 and innovation activities.
27. Sunley, P. and Gardiner, B. (2020) The changing spatial distribution of employment in creative industry clusters in England 1991-2018, London: Creative Industries Policy and Evidence Centre and Creative England. Available from: https://www.pec.ac.uk/research-reports/changing-spatial-distribution-ofemploymen
28. We interpret these cautiously as our sample size remains low.
29. Treatment of outliers consisted of calculating means and standard deviations. Observations that were more than three standard deviations away from the mean were considered as outliers and turned into missing.

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